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C O N F I D E N T I A L SECTION 01 OF 04 MANILA 002278

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STATE FOR NEA/NGA AND EAP/PMB  
STATE ALSO FOR S/CT, DS/T/ATA, AND INL/AAE  
DOJ FOR OPDAT, ICITAP, OIA, AND NIC  
NSC FOR GREEN  
DOD/ISA/AP FOR BG ALLEN

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TAGS: PREL PTER MARR MASS MCAP ECON ETRD EFIN KISL

OVIP (ZOELLICK, ROBERT), KIPR, EAIR, EAID, SA, RP  
SUBJECT: THE DEPUTY SECRETARY'S MAY 5, 2005 MEETING WITH  
PHILIPPINE CABINET OFFICIALS

REF: A. MANILA 1748

1B. MANILA 1961  
1C. MANILA 2042  
1D. MANILA 5502

Classified By: Political Officer Paul O'Friel  
for reasons 1.4.(b) and (d)

11. (U) May 5, 2005; 9:00 a.m.; Manila, the Philippines.

12. (C) SUMMARY. Anti-terrorism legislation will be on top of the Arroyo Administration's agenda once the Philippine Congress passes a value added tax. GRP officials told Deputy Secretary Zoellick they hope to rally support around an

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Administration bill, and believe they have enough votes to pass legislation. The GRP is optimistic about prospects for peace with the Moro Islamic Liberation Front (MILF), with some predicting an agreement before year's end. Divisions within the MILF may cause the organization to splinter once an accord is signed, with more radical elements continuing the fight. Defense Secretary Cruz vowed to the Deputy Secretary that if this happens, the Armed Forces of the

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Philippines would go after all those who do not support peace. Philippine National Security Advisor Gonzales worried about the impact of Wahabi proselytization in the Philippines, but admitted that the presence of one million Filipino workers in Saudi Arabia puts the GRP in a difficult position. The Philippine government is committed to pursuing reform of the Philippine National Police, similar to the comprehensive effort now underway in the Armed Forces of the Philippines. Economic prospects appear to be looking up, with the passage of a "sin" tax, aggressive efforts to increase revenues, a more serious campaign against corruption, and an improved investment picture. The Philippines hopes to have completed revisions to its Millennium Challenge Account submission in time for the upcoming meeting between the Secretary and Foreign Secretary Romulo. END SUMMARY.

#### COUNTERTERRORISM OVERVIEW

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13. (C) Executive Secretary Ermita opened the meeting with senior members of President Arroyo's cabinet by asking Philippine National Security Council (NSC) staff to provide the Deputy Secretary an overview of GRP counterterrorism efforts. Having faced insurgency and terrorism since the 1960's, the Philippines was now confronted with the danger of Islamist extremism. As rival visions of Islam struggled for dominance in the Muslim world, Jihadists were keen to export their ideology, and threatened to turn the Philippines into a proxy battlefield. To cope with this and other threats, the Philippines had established in March 2004 the Anti-Terrorism Task Force (ATTF). Grouping some 46 agencies, the ATTF allowed the GRP to marshal and target scarce resources in the anti-terrorism fight. As of May 2005, the ATTF claimed to have captured or killed 115 terrorists, including 20 Jemaah Islamiyah (JI) operatives.

14. (C) International support had proven key to this effort. US, British, and Japanese training had improved capabilities, but the GRP remained concerned about the changing nature of the threat. Terrorists were developing expertise in bomb making and the use of chemical agents, and vehicle-borne explosives were growing dangers.

15. (C) Thanking Executive Secretary Ermita for this overview, the Deputy Secretary stated he had come at the beginning of the second Bush Administration to consult with the Philippines and other close partners in the region on economic, political, and security issues. Agreeing that the fight against terrorism was a long-term struggle, Zoellick noted that while significant progress had been achieved, it was important to keep up the momentum. He asked Ermita for

an update on several issues:

- Anti-terrorism legislation;
- Peace negotiations with the Moro Islamic Liberation Front (MILF);
- A possible mediating role for the US Institute of Peace (USIP) in the negotiations;
- Defense reform; and,
- Comprehensive police reform.

#### ANTI-TERRORISM LEGISLATION IN THE WORKS

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**16.** (C) Ermita said the Arroyo Administration was determined to pass an anti-terrorism bill once Congress had completed action on a value added tax. The DND and the Philippine NSC had agreed on draft legislation and were now coordinating with key House and Senate staff to rally support behind it. National Defense Secretary Cruz, who is leading the fight, stated he believed the Arroyo Administration would have enough votes on the floor to pass the bill when it came to a vote. Cruz noted the Administration's bill was a compilation of UN proposals for effective anti-terrorism legislation that included a "sprinkling" of elements from the UK's Prevention of Terrorism Act. Cruz dismissed challenges from the left, saying the prospective law would strike a good balance between preserving rights and giving the state the legal weapons it needed to fight terrorism.

#### DEALING WITH THE MILF

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**17.** (C) Ermita said he was optimistic his government would sign an agreement with the MILF before the end of 2005. The resumption of formal talks in Kuala Lumpur under the auspices of the Malaysian government had succeeded in tackling the difficult issue of "ancestral domain." The GRP, Ermita said, was keeping tabs on MILF support for the JI. While the MILF as an organization had disassociated itself from terrorism, renegade commanders persisted in providing sanctuary to the JI and ASG. The threat of designation by the United States as a foreign terrorist organization appeared to have had an impact on the thinking of the MILF leadership, Ermita noted.

**18.** (C) Defense Secretary Cruz stated that during the latest round of talks in Kuala Lumpur MILF negotiators appeared to have set aside their previous insistence on an Islamic republic, and seemed ready to work within the framework of the existing Indigenous Peoples Rights Act, which would allow the Bangsamoro people to exploit natural resources located in the Autonomous Region in Muslim Mindanao (ref A). Cruz said it was critical for the Bangsamoro people to believe they could legitimately elect political leaders who reflected the popular will. Granting them political power and economic rights offered the best hope for a long-term solution.

**19.** (C) Ermita observed that MILF Chairman Murad had constantly pressed him on how and when development assistance could be funneled to Moro communities through the Bangsamoro Development Agency (BDA). USAID and the USG had been very helpful in providing assistance to Moro National Liberation Front (MNLF) areas following the signing of the 1996 peace accords, Ermita stated, and this formula could be replicated with the MILF once a peace accord is signed.

**110.** (C) Cruz said he believed Murad could bring the majority of the MILF with him in a peace accord, but a minority might splinter off and continue to fight. If this happens, the AFP will go after them, Cruz vowed. National Security Advisor Gonzales pointed out two trends existed within the MILF -- the secular, represented by Chairman Murad, and the religious. Hashim Salamat had started the process of "Islamization" within the organization. "This is a tendency that needs to be checked," Gonzales said, calling the process worrying. Apparently less confident about the prospects for an agreement in the near-term, Gonzales said, "What counts is the cease-fire; what we sign is not as important as the peace."

**111.** (C) Ambassador Ricciardone noted the Embassy and USAID were in direct contact with the BDA and the MILF regarding development assistance, and stood ready to provide help to MILF areas free from terrorism. However, elements of the MILF continued to allow the JI and ASG to seek shelter in their areas. It made sense to identify these groups or individuals and list them under the UN 1287 process. Given Malaysian sensitivities, perhaps the GRP could sound them out first on this point, and get them "to help lead the charge," the Ambassador suggested. The Deputy Secretary stressed our intent to be helpful.

#### THE SAUDI QUESTION

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**112.** (C) Noting National Security Advisor Gonzales' concern about the possible negative influence of the Wahabi sect in the Philippines, Ambassador Ricciardone said he had spoken with Saudi Ambassador Mohammed Wali about this problem.

Recent evidence seemed to suggest that Saudi nationals were moving money into the Philippines and passing it to JI operatives. Mayor Sema of Cotabato City appeared to be implicated in this traffic, which had recently caused USAID to suspend a major road construction project in his town (ref B). The United States was concerned that suspected Saudi terrorism financiers had been allowed to leave the Philippines, as had happened in three recent cases (ref C). While Ambassador Wali had given assurances that these individuals were taken into custody once they returned to Saudi Arabia, we are uncertain whether this was true. Gonzales agreed on the need to address this issue, adding that the Philippines also wanted to screen Muslim missionaries. However, the presence of one million Philippine workers in Saudi Arabia put the GRP in a difficult position.

#### DEFENSE REFORM

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**¶13.** (C) On defense reform, Cruz said his goal was to upgrade the capabilities of the Armed Forces of the Philippines (AFP) in order to allow it to defeat the internal security threats facing the country within six to ten years. The program to do so consisted of four thrusts.

- Philippine Defense Reform (PDR), which was focused on systematic structural change, was the largest component.
- The Capabilities Upgrade Program (CUP) aimed at modernizing the AFP's equipment.
- A political settlement with the MILF would free up resources, which would allow the AFP to defeat the Communist insurgency.
- With the help of its allies, the GRP would continue to upgrade its capabilities to target the JI and ASG.

#### REFORMING THE PHILIPPINE POLICE ALSO A PRIORITY

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**¶14.** (C) Ermita said his government hoped to pursue a similar type of strategic reform effort with the Philippine National Police (PNP), which having once been part of the AFP shared many similar problems. Also engaged in the fight against terrorism, as well as grappling with the challenges of criminality, transnational crime, and narcotics, the PNP needed a lot of assistance as it struggled to remake itself in a comprehensive effort. The Deputy Secretary said while there were limits on US resources, he would follow up to see what could be done.

#### TRADE AND INVESTMENT ISSUES

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**¶15.** (C) Finance Secretary Purisima provided a quick overview of the economy. The Philippines was clearly in a difficult situation, with about 90-percent of government tax revenue going to debt service. To deal with this challenge, the Arroyo Administration was focused on a series of key objectives: reforming the tax structure; improving tax efficiency; tightening budget controls; and, privatization. The newly passed "sin" tax looked like it would generate considerable revenues, Purisima predicted. Aggressive prosecution of tax cheats would continue until habitual evaders changed their mindset, as would the crack down on smuggling and fight against graft and corruption. Purisima claimed spending controls had already lowered the budget deficit, but admitted that squeezing the budget could squeeze growth. Responding to the Deputy Secretary's question on whether the Philippines would revise its Millennium Challenge Account submission, Purisima said, "We hope to have something in time for the Romulo-Rice meeting."

**¶16.** (C) Trade Secretary Santos added investment had grown last year, with sustained interest by Japan, Taiwan, and China. The mining sector offered strong potential. Santos said he regretted the Philippines remained on the Special 301 Priority Watch List, but was hoping that the mid-cycle review would prove positive. The Deputy Secretary noted optical media pirating issues remained a problem for the Philippines, and would have to be resolved. He added Philippine government policies on air cargo rights and other questions built up over time, creating a negative image. Resolving some of these issues would resonate positively in the global business community.

**¶17. (U)** Participants:

U.S.  
Deputy Secretary Robert Zoellick  
Ambassador Francis Ricciardone  
Deputy Assistant Secretary Marie Huhtala

D Executive Assistant Ross Wilson  
Deputy Chief of Mission Joseph Muzzomeli  
Political Counselor Scott Bellard  
JUSMAG Chief Colonel Mathias Velasco  
Christian Castro, D Special Assistant for EAP  
Christine Davies, D Special Assistant for Public Affairs  
Adam Ereli, Public Affairs  
Paul O'Friel (Notetaker)

GRP  
Executive Secretary Eduardo Ermita  
Secretary of National Defense Avelino Cruz

SIPDIS  
National Security Advisor Norberto Gonzales  
Secretary of Finance Cesar Purisima

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Secretary of Trade and Industry Juan Santos

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Acting Secretary of Foreign Affairs Edsel Custodio  
BG (ret.) Cesar Garcia, Director General, National  
Intelligence Coordinating Agency  
LTG (ret.) Victor Mayo, Deputy Director General, National  
Security Council  
Assistant Secretary for American Affairs Ariel Abadilla

¶18. (U) D Staff has reviewed this telegram.

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